FOR MYSORE STATE

Dev (1950) Department

FI SERIES.

G.O. No. 2317.

Dated 8.6.50

[Despatch Abstract.]

G.O.No.2317 8-6-1950 — Labour-Housing-Scheme of Govt. of India-Papers recorded.

Letter No.40023 PIV/49-10 dated 4-10-1949.

To

The Secretary to the Government of India,

Ministry of Labour,

New Delhi.

Sir,

Sub: Industrial Housing - Scheme.

Ref: Your letter No.Fac.32(30) dated 13-4-49.

I am directed to state that the Govt. of Madras have examined the scheme forwarded by the Govt. of India in their letter cited and consider that quite apart from the inadvisibility of starting large building schemes at the present juncture, the scheme cannot really be financed in the manner suggested by the Govt. of India for the following reasons:-

(1) Provision of 2½% for repairs and maintenance:-

According to the normal practice the provision to be made on account of repairs and maintenance is 2 percent of the capital cost, and the municipal taxes are generally assumed to be 1 per cent. Thus the allowance to be made on account of both(1) repairs and maintenance and (2) municipal taxes is 3 per cent against 2½% adopted by the Government of India in their calculation. There is thus a short provision of ½% under this head.

(2) Contribution at 2% to a Sinking Fund for repayment of the loan:-

Contribution at 2% of the capital cost as proposed by the Government of India would suffice to discharge only about 68% or about 2/3rds of the capital cost i.e. the portion to be financed by the Government of India. In order to discharge the loans to be advanced both by the centre and the provinces the annual contribution to be made to the Sinking Fund should be 3% and not 2%. Thus there is a short provision of 1% under this head also.

(3) Rate of interest on 1/3rd of the capital to be Provided by the Provincial Government:-

The scheme allows for a return of 3% only on the capital inverted, by the Provincial Government. Indications are that this Government would not be able to borrow at 3 % for long and that some allowance has to be made for the possible higher rate of interest which the Provincial Government may have to pay in the years to come.

(4) Recovery of 3% of the capital cost from the employers and 2½% from the employees subject to a maximum of 20% of their wages:-

For the reasons stated above, recovery from employers and workers should be at least 7% instead of 5½% as contemplated by the Scheme. Even this 7% does not allow for other possible lossess, such as in the short falls of rent, or an account of expenditure for maintaining Housing Boards and other agencies as required under the scheme.

Even assuming that an income of 5½% of the capital outlay woul be sufficient, it would be too much to expect that this 5½% can be recovered from the employers and the employees. Taking, for example, a house costing Rs. 7,500/- the Government of India assume that the employer will pay Rs.225 per annum per house, this means that the employer will have to pay an additional sum of nearly Rs.10/- per month per worker . It is doubtful whether this will be accepted by the employers. Again, the labourers share is Rs.187-8-0 per house per year or about Rs.94/- per wage earner or about Rs.8/- per month per wage earner. If this amount is to be realised, the average income of the labourer must be about Rs.80/- a month. This is very much of an overestimate in this province. If 10% of the actual wage is the maximum that can be recovered from the workers, there will be very big deficit in respect of the

Assuming that 2 families or 2 wage-earners occupy such a house,

2½% recovery from the employees. If allowance is to be made for total recovery of 7% instead of 5%, there is no practical chance of the Provincial Government being able to recover sufficient sums from the employers and employees to meet the financial objections under the scheme-

(5) There are other factors which would contribute to further deficit in the provincial receipts, viz., (1) short vacancies that there bound to occur between one tenancy and another ; (2) consequential reduction that will be made in the present scale of wages when the present abnormal cost of living goes down, etc.

It is not also clear from the Government of India's letter as to who will be the owner of the houses when the entire loan of the Central and Provincial Governments is repaid. It is presumed that the Provincial Government will be the owners. If so, this is neither desirable nor easy. The Madras Government consider that a much better scheme would be to make the employers themselves undertake the construction of houses. The Government of India's share of the loan could be given to them direct. A loan free of interest for 25 years to cover 2/3 rds of the cost of construction should be very attarac tive to them and should produce good response. It will be much easier for the employers to recover the rents from their workers. Maintenance etc. will be cheaper when each employer looks after his own building. The original cost of construction may also be less.

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Note File -1-

DEV. P.IV. DEPT.

SUMMARISING NOTE

The file deals with the scheme of the Govt. of India regarding housing for industrial workers.

2. Adequate housing has been recognised as one of the essential requisites for a contented labour force and the urgency of providing suitable housing for industrial labour has been stressed by the Government of India in their Industrial Truce Resolution. In 1946 the Govt. of India formulated a tentative scheme for the housing of industrial labour under which they offerred a subsidy of 12½% up to a maximum of Rs.200/- per house provided the Provincial Govt, also paid a like amount. The response to this scheme was negligible. The urgency of industrial housing was again emphasised at the Labour Ministers' Conference held in November 1947, and the Conference suggested that the funds required for financing the scheme might be raised by means of a levy on output similar to the housing cess levied on coal despatches in the coal mining areas. This suggestion was not however accepted by the Government of India as such a levy is an important source of Central Finance which would have been adversely affected thereby. Alternative methods of financing housing schemes were therefore considered at the Labour Minister's Conference held in May 1948. The Conference recommended that the Capital required for industrial housing should be raised by loan and the recurring charges should be met partly by the levy of a capitation tax from the employers at the rate of Rs.3/- per worker/ in industrial undertakings and Rs.1-8-0 per worker per month in plantations. The recommendation for the levy of a capitation tax was also not accepted by the Government of India, because of its inflationary effect and as it was not considered desirable that the tax should be imposed on all employers when it was certain that the housing facilities that could be provided would benefit only a very small number.

3. In April 1949 the Government of India have again reconsidered the whole matter and have decided that the capital required for industrial housing should be provided as loan to be advanced by the Central Government to the extent of two-thirds and the balance to be provided by the Provincial Govt. or an employer sponsored by the Provincial Government. The Provincial Govt. will be required to build up a Sinking Fund to which contribution must be made from a date not later than 2 years after the loan has been advanced and in equated instalments so as to enable the amount to be repaid in 25 years. The Central Government will not charge interest for the advance made. Employers will be required to contribute 3% of the total costs in the form of rent for quarters allotted to their workers. 2½% of the total cost will be recovered from the employees as rent subject to a maximum of 20% of their wages. Of the 5½% thus realised 2% will go towards Sinking Fund, 2½% for repairs and maintenance and the remaining 1% as interest or Provincial loan (at 3% per annum on 1/3rd of the capital.).

The financial implications of the above scheme are as detailed below:-

I. Central Government's liability

(a) a loan equal to 2/3 of the total capital free of interest

(b) cost of Central organisation for administering the scheme.

II. Provincial Government's liability

(i) Providing 1/3 of the total capital as loan (this may be provided by an employer. But such cases will be very few).

(ii) Cost of Regional Organisation for administering the Scheme.

(iii) Building up a Sinking Fund for the repayment of the loan in 25 years.

4. The Govt. of India take the recurring charges at 5½% of capital cost as detailed below:-

(1) 2½% for maintenance and repairs.

(2) 2% for contribution to the Sinking Fund to be constituted to enable the loan to be repaid within 25 years.

(3) 1% for payment of interest at 3% on the 1/3rd of the Capital to be provided by the Provincial Govt.

Their suggestion is that this 5½% could be found by requiring.

(a) the employer to pay 3% of the Capital cost in the form of rent for each quarter; and

(b) the employee to pay 2½% of the capital cost. subject to a maximum of 20% of his emoluments- the Govt. of India assume that there will be at least 2 wage-earners living in each quarter.

5. According to the above ~~xxxxxxx~~ proposals the incidence of cost of construction of the following 3 types of quarters will be:-

	Class I. quarter Rs-	Class II quarter. Rs.	Class III quarter Rs.
1. Capital cost.	7,500	5,400	3,000
2. Govt. of India's loan (2/3rd of Cap -tal)	5,000	3,600	2,000
3. Provincial Govt's loan (1/3rd of the capital)	2.500	1,800	1,000
4. Employers' contribution at 3% of capital cost.	Rs.22½ per annum for 2 wage-earners or Rs.9-6-0 for each worker per mensem	Rs.16½ per annum for 2 wage-earners or Rs.6-12-0 for each worker per mensem	Rs.90 per annum for 2 wage-earners or Rs.3-12-0 for each worker per mensem.
5. Employees contribution at 2½% of Capital cost.	Rs.187-8-0 p.a for 2 wage-earners or Rs.7-13-0 for each worker per mensem.	Rs.135 p.a. for 2 wage-earners or Rs.5-10-0 for each worker per mensem.	Rs.75 p.a. for 2 wage-earners or Rs.3-2-0 for each worker per mensem.

According to Government of India's suggestion each two-roomed quarter has to be occupied by at least 2 wage-earners until the housing situation shows improvement. So the amount to be recovered from the employees will be 2½% of the capital cost subject to the maximum of 10% of the earnings of each worker. Any short-fall will have to be borne by the Provincial Govt.

In order to ensure the recovery of the amount due from the employers i.e. 3% of capital cost, the Govt. of India consider that central legislation will be necessary.

6- In the above scheme certain points are not however clear. It is presumed that the employer should take the necessary loan from the Provincial Govt. and himself arrange for the construction work according to the prescribed standard and subject to supervision of the technical officers of the Provincial Government. It is also not clear in whom the ownership of the buildings will vest and who will look after their maintanance and pay the taxes etc.

7. The Govt. of India enquired whether this Govt. would wish to take a loan from them under this scheme, and if so to indicate what the total amount is likely to be for 1949-50

8. The Finance Department, who have examined the scheme indetail, consider that quite apart from the inadvisability of starting large buildings schemes at the present juncture, the scheme cannot really be financed in the manner suggested by the Government of India for the following reasons:-

(1) Provision of 2½% for repairs and maintenance:-

According to the normal practice the provision to be made on account of repairs and maintenance is 2 per cent of the capital cost, and the municipal taxes are generally assumed to be 1 per cent. Thus the allowance to be made on account of both (1) repairs and maintenance and (2) municipal taxes is 3 per cent against 2½% adopted by the Government of India in their calculation. There is thus a short provision of ½ per cent under this head.

(2) Contribution of 2% to a Sinking Fund for repayment of the loans:-

Contribution at 2% of the capital cost as proposed by the Govt. of India would suffice to discharge only about 68% or 2/3rds of the Capital cost i.e. the portion to be financed by the Govt. of India. In order to discharge the loans to be advanced, both by the centre and the Provinces the annual contribution to be made to the Sinking Fund should be 3% and not 2%. Thus there is a short provision of 1% under this head also.

(3) Rate of interest on 1/3rd of the Capital to be provided by the Provincial Govt:-

The scheme allows for a return of 3% only on the capital invested, by the Provincial Govt. Indications are that this Govt. would not be able to borrow at 3% for long and that some allowance has to be made for the possible, higher rate of interest when the Provincial Govt. may have to pay in the years to come

(4) Recovery of 3% of the Capital cost from the employers and 2½% from the employees subject to a maximum of 20% of their wages:-

For the reasons stated above, recovery from employers and workers should be at least 7% instead of 5½% as contemplated by the Scheme. Even this 7 per cent does not allow for other possible losses, such as in the short falls of rent, or on account of expenditure for maintaining Housing Boards and other agencies as required under the Scheme.

Even assuming that an income of 5½% of the capital outlay would be sufficient, it would be too much to expect that this 5½% can be recovered from the employers and the employees. Taking for example a house costing Rs.7,500/-

Govt. of India assume that the employer will pay Rs.225 per sum per house. Assuming that 2 familes or 2 wage-earners occupy such a house, this means that the employer will have to pay an additional sum of nearly Rs.10/- per month per worker. This will not be accepted by the employers. If not, the cost of living index must go up enormously as the addition to the effective wage will be reflected in the prices of the finished article. Again the labour's share is Rs.187-8-0 per house per year or about Rs.94 per wage earner or about Rs.8/- per month per wage-earner. If this amount is to be realised, the average income of the labourer must be about Rs.80/- a month. This is very much of an overestimate in this Province. If 10% of the actual wage is the maximum that can be recovered from the workers, there will be a very big deficit in respect of the 2½% recovery from the employees. If allowance is to be made for a total recovery of 7% instead of 5½% the possible becomes impossible.

(5) There are other factors which would contribute to further deficit in the provincial receipts, viz., (1) Short vacancies that are bound to occur between one tenancy and another; (2) consequential reduction that will be made in the present scale of wages when the present abnormal cost of living goes down.

9. For the reasons mentioned above, Fin.Dept.consider that there is no reason whatever why the Provincial Govt. should take up the responsibility for implementing the scheme. If the Central Govt. can legislate for employers paying 3% (or something higher) of the capital cost every year, they can as well legislate for employers themselve undertaking the construction of houses and the Govt. of India's share of the loan can as well be given direct to the employers with the concession that no interest will be payable thereon for 25 years.

If an interest-free loan to cover 2/3rd of the cost is forthcoming, there should be a good response from employers in the matter of constructing quarters for their employees. 'Z' It will be also easier for the employers to recover the rents from their workers. Maintenance etc, will also be cheaper if each employer looks after his own buildings and the original cost of construction will also be less.

10. In conclusion Fin. Dept. suggest that this Govt.'s reply to the Govt. of India maybbe like this:-

" the scheme cannot really be financed in the manner 'A' suggested by the Govt. of India for the reasons mentioned above and in view of the help which the Govt. of India are prepared to give, the best course will be to require employers themselves to undertake housing schemes with an interest-free loan to cover 2/3rd of the estimated cost from the Govt. of India"

11- P.W. Dept. have also seen the case but have not offered any remarks.

The views of the Finance Dept. may be accepted and the alternative suggestion made by them at 'A' may be put to the Govt. of India.

As this is an important question of policy Fin.Dept. suggest that orders of the Cabinet may be obtained. For orders whether this may be placed before the Cabinet.

C.P.G. Sd/....
16-9-49. P.M-

I am in complete agreement with Finance.

Sd/....
6-9-49

"Pl. explain the scheme in person.

B.G.R. Sd/. H.S.R. H.M.(L.R.)
20-9- 20-9-

Sd/. B.G.R. H.M.(Fin)
Discussed 24-9.

Sd/- P.S.K. H.P.
28-9-

Order in circulation on p.31 ante.

A draft reply letter to the Government of India, with reference to their letter at pp.1-5- c.f. is submitted for approval.

Finance suggested circulation to the Cabinet. The Government of India have reminded for urgent reply. The file has been seen by H.M.(L.R). H.M.(Fin) and H.Pr. The reply put up, is in agreement with the views of Findnce Dept. As this is not so much a matter of policy as one of ~~mixx~~ administration, a reference to the Cabinet seemm unnecessayy. Fin. may also see the draft before issue

'L'

C.P.G.
28-9-49.

Finance (Exp-A)

(Pre: Finance note on pp.12-24 above).

The orders in circulation on p.31 above, are to the effect that the matter may be placed before the Cabinet before sending a reply to the Government of India. Devt. may therefore be requested to re-circulate the case before issuing the draft, which may be accepted in Finance.

The orders are all specific.

Sd/..
29-9-49.

whether this should be before the Cabinet or not is a matter for the administration Dept. The Dev. consider it unnecessary to refer the matter to the Cabinet, Finance have no objection to a reply being sent immediately ~~on~~ the ... proposed. ~~five~~ lines

'K'

Sd/...
29-~~9~~-49
Dev.P.IV.Dept.

Please see Fin. remarks at 'K' ~~on p.32~~ above, with refrence to the point raised at 'L' on that page.

The draft may issue.

C.P.G.
4-10-49.

-True copy-

RR.12.8 Jc. Shanka 13/8/53 K.V. Ambujakshan

Superintendent